

KeyPlay Financial Services' 2017 Autumn Newsletter

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Hello and welcome to the 2017 Autumn edition of the KeyPlay Financial Services' Newsletter.

As with most years it would seem 2017 again will be a year of further changes as new rules will be applied in the Centrelink and superannuation areas that will affect most Australians. The one thing for certain in this financial life is that CHANGE will always be a huge part of an investor's or retiree's life and as such the value of our ongoing support is most important and will only increase over time.

With our ongoing support in mind, most of you will have received from us in the past year - what is known as a "Fee Disclosure Statement".

The Fee Disclosure Statement is a relatively new requirement from the Federal Government imposed on the Financial Planning industry. Financial Planners are now required by law to outline their services for you (and the associated costs for those) in this written Statement and provide this to you every 12 months going forward. (Some early clients are exempt from receiving them).

So, what are they? These Fee Disclosure Statements are in effect a confirmation to you that you are a "member" of the KeyPlay Financial Services' "Client Team" and that we are here supporting you on your financial and life journey.

The Fee Disclosure Statements are a concise summary and therefore do not include all of the assistance that we provide you. When you receive these Statements each year, you can view them as a confirmation that we are working to help to make your position as beneficial as it possibly can be for you.

One of the key features on the Fee Disclosure Statements is the Annual Review process. Therefore, keeping up to date via these ongoing reviews is an integral part of ensuring that your financial matters are progressing as smoothly as possible.

Another key benefit is knowing that if there is a problem (such as with Centrelink or with your investment for whatever reason), that as clients of KeyPlay, we are here to help you. With our regular reviews and updating of your circumstances we should therefore have the necessary information on record to help you with whatever assistance that you need at that time.

When matters are going smoothly, some people think that they do not need to pay costs for ongoing service and that matters will just progress on that smooth basis indefinitely. This is a risk though. The fact that things are moving along smoothly is usually (to some degree at least), due to the work that we have completed to put the person into that position and then update with our reviews and support along the way.

Further, it is when things are not working as well as they could be for whatever reason, that our assistance and advice can be even more beneficial.

In summary, although these Fee Disclosure Statements have been imposed on us by the Government (and add to the paperwork pile that we have to complete and send to you) – I view them as a positive. They confirm your association with our firm and detail to you each year the services and support that we provide for you and their cost - an annual reminder of what we are doing day in and day out for the clients of KeyPlay!

Tony

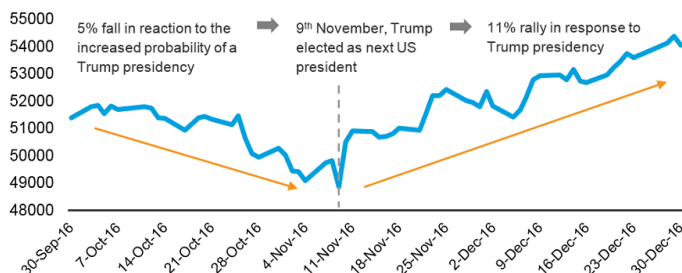
"Should you time the stock market:

The recent 'Trump rally' demonstrated just how challenging equity market timing can be. Few investors predicted a Trump victory. Of those who did, even less predicted the subsequent equity market rally.



In this research insight, we explore the arguments for and against market timing, and ask the question 'should you try to time the stock market?' Whilst market timing looks compelling on paper, we suggest, it is almost impossible for investors to time the equity market efficiently and consistently.

Trumped timing: Few investors picked the equity market rally post Trump victory S&P/ASX 200 Accumulation Index

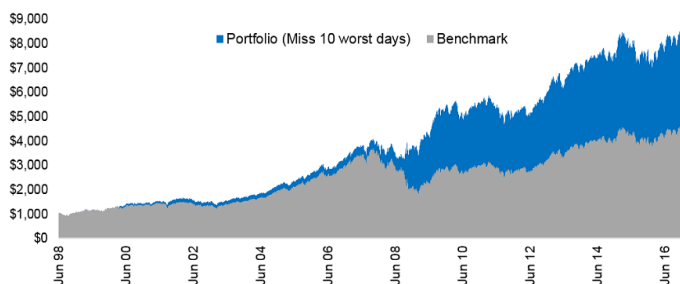


Source: IRESS, 2017

Market timing looks compelling (on paper)

Stock markets move in cycles. Investors who use market timing try to anticipate these cycles using macroeconomic data and other variables. As an example some investors will move part or all of their equities exposure to cash in anticipation of a market correction. The reason investors attempt market timing strategies is because of the large payoff available if they succeed as shown in the chart.

A significant opportunity? Missing the ten worst days in the market Accumulation of \$1000 invested: S&P/ASX 200 Accumulation Index



Source: Macquarie

Beware the market timing mirage

Although timing the stock market is compelling on paper, correctly predicting the next equity market phase or correction is a complex and costly problem for the following reasons:

1. Predicting market phases consistently is near impossible for most investors:

Investors are not always rational and equity markets do not always conform to logic.

2. Market timing opportunities are limited:

A large proportion of significant market timing opportunities in the Australian equity market were concentrated between 2007 and 2009. Outside of this time period, the opportunity set for timing the market in Australian equities has been relatively limited.

3. High portfolio turnover and trading costs:

Regularly switching your entire portfolio between cash and equities results in increased costs including tax implications. The high costs incurred in market timing means the strategy won't work for many investors.

Should you time the stock market?

Investors and investment managers alike have fallen for the allure of 'moving to cash' at the right moment, only to have the equity market leave them behind.

As Peter Lynch* (see below) - famously warned, *'far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in the corrections themselves.'*

Whilst market timing is compelling on paper, the complexity in predicting equity market cycles combined with high trading costs make it impractical for most investors. In our view, an easier way to generate long term returns from the stock market is to keep your equities exposure invested.

*Courtesy of Investopedia, Peter Lynch managed the Fidelity Magellan Fund from 1977 to 1990, during which time the fund's assets grew from \$20 million to \$14 billion.

More importantly, Lynch reportedly beat the S&P 500 Index benchmark in 11 of those 13 years, achieving an annual average return of 29%.

He is also famous for several books including, "One Up On Wall Street" (1989) and "Beating The Street" (1993), which are widely considered to be mandatory reading for any investor.



Superannuation Contribution Changes from 1/7/2017:

The Government has announced further changes to superannuation rules (surprise, surprise!!) with the first changes to be implemented from 1st July 2017.

One change is that the contributions that a person is able to make to superannuation are to be limited. Many people ask why that would be the case as surely the more funds a person can put into superannuation should help to see them become less reliant on the Government Pension when they retire? The answer is TAX.

The superannuation environment has concessional tax treatment and the Government doesn't want to see retirees with big sums in superannuation paying no tax through their retirement and then passing on those funds possibly tax free when they die. They want more for their coffers!

Boosting superannuation savings with what are called "Non-Concessional contributions" (NCCs) can help people prepare for retirement and make up for lost ground. However, from 1st July 2017, changes to the superannuation rules may impact a client's ability to make Non-Concessional and Concessional Contributions.

What's changing from 1 July 2017? The main changes taking effect include:

1. The cap on concessional (pre-tax) super contributions will reduce from \$30,000 per annum or \$35,000 per annum (depending on age) to \$25,000 per annum.
 2. An additional 15% tax on concessional contributions will be payable by people with incomes greater than \$250,000 pa (currently \$300,000 pa).
 3. The cap on non-concessional (after-tax) super contributions will reduce to \$100,000 pa (currently \$180,000 pa) and \$300,000 when using the 'bring-forward' rule (currently \$540,000).
- *Eligibility changes: Individuals must have a total super balance less than the general transfer balance cap on 30 June of the previous financial year to be eligible to make NCCs in the relevant financial year. (This criterion is to be met in addition to the existing age and work test requirements). For the 2017-18 financial year, the general transfer balance cap is \$1.6 million.*

So, long story short – the window on adding extra funds into your superannuation is being closed somewhat – but there is an opportunity up until June 30th 2017 – to maximise using the current rules.

Contact us if you think you might be looking at contributing extra funds into superannuation in the short term.

Trump the game changer - the only certainty now is uncertainty?

2017 will present many risks and opportunities as the winds of change sweep through the global economy and markets. Geopolitics will dominate - in the US, UK, Europe and China. All eyes are on Donald Trump, who represents the first true change from centrist politics in over two decades. But can his policies lead to a permanent shift higher in the potential economic growth rate in the US? If the answer is 'yes', then markets are right to be bullish.

But the greater risk is a boom-bust scenario where significant fiscal policy easing leads to higher inflation, higher interest rates and tighter monetary policy. So, the global environment will continue to present uncertainties for Australia. The RBA is likely to balance these risks and keep monetary policy on hold, while economic growth continues its transition and remains close to its long-term trend. With all this to consider, the only certainty for 2017 is uncertainty.

Australia Post CEO saga!

AUSTRALIA Post's chief executive was paid a total of \$5.6 million in 2016, 10 times the salary of Prime Minister Malcolm Turnbull, it has been revealed.

Ahmed Fahour's salary of \$4.4 million and bonus of \$1.2 million were revealed by Liberal Senator James Paterson, who released documents provided by Australia Post in response to questions from a Senate committee. Another five executives earned between \$1.8 million and \$1.3 million.

Crossbench senator Nick Xenophon praised Mr Paterson for insisting the salaries be disclosed. "I think a lot of people will scratch their heads on that one," he told ABC TV.



The Prime Minister, Mr Turnbull told reporters that Mr Fahour's remuneration package was "too high" and that he had spoken to the Australia Post board chair.

The letters and parcel business had previously refused to disclose the salary of Mr Fahour, Australia's highest paid public servant, saying there was "no public interest" in releasing the information.

Since the salary details became public news, as they should have, Mr Fahour has considered his position and has submitted his resignation which will be effective on 1st July 2017.

The next CEO is going to be under some pressure at Australia Post - and at the same time earning a bit less than Mr Fahour I think!

Laura's Riddles!

1. Paul's height is six feet, he's an assistant at a butcher's shop, and wears size 9 shoes. What does he weigh?
2. If there are 3 apples and you take away 2, how many do you have?

Answers!

1. Meat.
 2. If you take 2 apples, then you have of course 2.
-

Insurance premiums:

Home and car owners face a 4% hike in their insurance bills this year, according to new industry predictions, as insurers seek to pass on higher costs to customers. After several years of slower growth in premiums, a new report from JP Morgan and consultants Taylor Fry predicts prices will rise briskly for home and motor insurance in 2017.

Based on a survey of underwriters, brokers and reinsurance companies, it says insurers will seek to push through average premium increases of 4%, up from a 3% lift last year, as profitability in the industry also lifts. Such an increase, if it occurs, would especially benefit Suncorp, which owns the AAMI, GIO and Bingle brands, and Insurance Australia Group, which sells insurance under names including NRMA, RACV and CGU.

While a 4% increase would be more than double the economy-wide inflation rate of just 1.5%, JP Morgan analysts said the premium increases mainly reflected higher claims costs for insurers. The report said claims inflation for home insurance had jumped to 12% last year, while the cost of motor insurance claims increased to 5%.

The predictions were included in the General Insurance Barometer report, which also said the industry expected a steep rise in premiums on compulsory third party (CTP) insurance in NSW, which covers drivers for damages claims on behalf of people who are injured or killed in car accidents. CTP premiums in NSW were expected to jump by 13% this year, it said, after a blowout in claims in recent years that the state government is acting to curb.

Health insurance companies have also been granted a 4% increase in premiums this year - so make sure that the cover you have is suitable for you and you are not paying for unwanted extras.

Losing Our AAA Credit Rating May Not Be Bad:

Apparently, it's not a matter of if Australia loses its coveted AAA credit rating, so much as when. The bleak scenario has arisen because the three big ratings agencies, Standard & Poor's, Moody's and Fitch, disagree with how the economy is being run.

Simplistically, the agencies focus on the ability to pay back borrowed money. The agencies award a AAA rating to the countries seen as having the least risk, so a change in this assessment will signal Australia's risk has increased.

Locally, a lower credit rating may increase the cost of government borrowing, which may be felt most keenly by the state governments. However, a rise in borrowing costs is not always certain.

Japan's borrowing costs fell after it was downgraded because of factors other than reduced the credit rating.

Banana republic revisited: A downgrade would not be a new thing for Australia. We last lost our AAA rating in 1986, after then Treasurer Paul Keating warned that Australia risked becoming a 'banana republic' if the economy wasn't fixed.



The current account and budget deficits were sky high, the terms of trade and the dollar were sinking, the jobless rate was 7.8% and official interest rates were approaching a mind-numbing 16%.

Keating was incensed that Moody's didn't trust the 'world's greatest treasurer', as he was named two years earlier, to have a fiscal plan to deal with the situation.

Political shock: But what did the downgrade actually mean for Australia? Arguably, the biggest effect was the shock felt by politicians and public servant mandarins. It was a huge kick in the pants and galvanised them into action. Complacency was no longer an option. It took 16 years, a long recession, savage budget cuts and the introduction of a goods and services tax for Moody's to restore our AAA rating. Today, because there's been so much talk about it and because internationally some big names have had their ratings cut – the US, France and the UK, for example – the effects may be felt less obviously. Perhaps the most palpable result will be a hit to national pride and public confidence in the government.

With the government on the political back foot as independents are poised to hold the balance of power in the Senate in the next parliament, the temptation will be to keep buying votes with spending initiatives. There will be little taste for austerity.

We can only hope that the effect of a downgrade this time will be the same as it was last time – to kick the government into action.

Power, power, power: What a downgrade would also show once again is that while the credit ratings system is open to distortions, voodoo economics and general mischief, the ratings companies hold enormous power.

This is clear from the part they played in the 2008 global financial crisis, for which they are now being punished. Moody's has agreed to pay nearly US\$864 million to settle with US federal and state authorities over its ratings of risky mortgage securities in the run-up to the crisis.

Standard & Poor's entered into a similar accord in 2015, paying out US\$1.375 billion. These companies now have to ensure the integrity of their credit ratings, including keeping analytics employees out of commercial discussions. The

world paid a high price for that piece of common sense.

Lindsay holidays:

Our "ageing" Centrelink expert - Lindsay Vanstan will be hooking up the van again and heading West this year and will be away in April and May for over 8 weeks weeks. Travel safe Lindz!

Progress Reviews:

This year Rob Turnbull will be helping Tony & Lindsay with the Review meetings, to ensure that we see everyone in a timely fashion.

Therefore, attached to this Newsletter is the Progress Review Checklist for 2017 – which will help us to prepare for the Review meetings in the next few months.

If applicable to you, please update the information as necessary, nominate a suitable time on page 4 that will suit you for the Annual Review meeting and then forward the form back to us.

We will then confirm the agreed time with you via email or mail.

Information Sessions:

Our 2017 **KeyPlay Information Sessions** are set for the following Topics and dates.

If you would like to attend please RSVP to Laura on 5333 5519, via email to: reception@keyplay.com.au or on page 4 of the Progress Review Information Update form.

Aged Care Update: Thursday 25th May 2017 @ 4PM at KeyPlay Conference Room.

Superannuation Update: Thursday 27th April 2017 @ 4PM at KeyPlay Conference Room.

Centrelink Update: Wednesday 14th June 2017 @ 3PM at KeyPlay Conference Room.



Joke Corner:

A man walks into a bar and says, "Give me a beer before the problems start!" He drinks the beer and then orders another saying, "Give me a beer before the problems start!"

The bartender looks confused. This goes on for a while, and after the fifth beer the bartender is totally confused and asks the man "When are you going to pay for these beers?"

The man answers, "Now the problems start!"

AND

A young boy asked his father, "How were people born?" So his father said, "Adam and Eve made babies, then their babies became adults and made babies, and so on."

The child then went to his mother, asked her the same question and she told him, "We were monkeys then we evolved to become like we are now."

The boy ran back to his father and said, "You lied to me!" His father who had heard the reply said: "No mate, your Mum was talking about her side of the family."

Our Aussie Cricketers:

Being a Carlton supporter means that I have become accustomed to running a distant second in two horse races in recent times. And there is not much light on the horizon either I think.

However luckily, I love most sports and can turn my attention to these and just watch the Blues with one eye open!

However, our Australian cricket team in India has caused me much grinding of the teeth and I fear they may have lost the opportunity to take out one of the most unlikely sports triumphs in the history of Australia v India Test matches.

After winning the first Test in Pune on a "goat track" of a pitch - by 75 runs - the Aussies had the chance to go 2 NIL up after needing only to reach 188 in their second innings of the second Test at Bengaluru.

After a steady start and being none for 22 in the chase - they capitulated and were bowled out for

112! They lost their 10 wickets for just 90 runs and of course lost the match.

This result is not good enough and I am not happy! When you see a procession of batsmen failing one after the other – then something has to change!

I know the pitch was tough, I know it's a game and I know the pressure was on BUT that is why the Aussie cricketers are paid up to in excess of \$1million per year (plus extras) to play sport for their country. Think of that - \$1million per year just to play cricket.

Surely we had the potential to reach a measly 188 runs? We really needed to see some extra resolve, patience and determination from our batsmen in that 4th innings, but it was missing.

As a result of that effort - I hope the chance to make history has not been lost. Let's hope they can bounce back and still make that history in what has been a tremendous series of test cricket.

Come on Aussies!

Finally:

Make sure that you return the Information Review Sheet to us and that you nominate a suitable time for Review.

This year with the US sharemarket at or near an all-time high - combined with worldwide political uncertainty – there will be plenty to discuss and consider.

Also make sure to RSVP for our 2017 series of Information Sessions.

Until next time,

Tony

**Tony White CFP Dip FP
PRACTICE PRINCIPAL
CERTIFIED FINANCIAL PLANNER**

KeyPlay Financial Services
90 Main Road
BALLARAT VIC 3350
Office Phone: 03 53 335519
Email: tony.white@hillross.com.au

Authorised Representative and Credit Representative of:
Hillross Financial Services Limited. AFSL No: 232705

